

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

301 State House
(317) 232-9855

FISCAL IMPACT STATEMENT

LS 6303

BILL NUMBER: HB 1193

DATE PREPARED: Mar 6, 2001

BILL AMENDED: Feb 19, 2001

SUBJECT: State Retiree Defined Contribution Plan.

FISCAL ANALYST: Jim Landers

PHONE NUMBER: 232-9869

FUNDS AFFECTED: X GENERAL
X DEDICATED
FEDERAL

IMPACT: State

Summary of Legislation: (Amended) The bill requires the State Personnel Department to adopt rules concerning: (1) The type and amount of leave that may be converted to a monetary contribution; (2) the conversion formula for valuing any leave that is converted; (3) the manner of employee selection of leave conversion; and (4) the vesting schedule for any leave that is converted. The rules adopted by the State Personnel Department must provide for a conversion rate under which the amount contributed on behalf of a participating employee for a day of leave that is converted is equal to at least 75% of the employee's daily pay as of the employee's retirement date. The bill provides that the provisions may be implemented only if the Deferred Compensation Committee has received from the Internal Revenue Service any rulings or determination letters that the Committee considers necessary or appropriate. The bill also provides that the existing provisions establishing a Section 125 Cafeteria Plan Program for unused leave time for state employees do not apply after the Defined Contribution Plan is implemented and the Deferred Compensation Committee has received from the Internal Revenue Service any rulings or determination letters that the Committee considers necessary or appropriate for the Defined Contribution Plan.

Effective Date: July 1, 2001.

Explanation of State Expenditures: (Revised) The bill would establish a Defined Contribution Plan under which retiring state employees could convert excess accrued sick, vacation, and personal leave time into a monetary contribution to the plan. The bill also would eliminate the current Section 125 Cafeteria Plan Program provided the Defined Contribution Plan is implemented. The additional cost to the state from this proposal is estimated to range from approximately \$1.4 M to \$2.1 M annually depending upon a conversion rate ranging from 75% to 100%. Of this total, approximately \$770,000 to \$1.15 M annually would be paid from the state General Fund, and about \$630,000 to \$950,000 would come from dedicated funds. The estimate is based on the unused sick, vacation (in excess of 30 days), and personal leave time accrued by state employees who retired during CY 2000 with 10 or more years of creditable service.

Background: According to current statute establishing the Section 125 Cafeteria Plan Program, payment on behalf of an employee for unused leave time upon retirement is based on the hourly rate the employee was paid on the employee's retirement date times a fraction of the number of accrued, but unused, vacation, sick, and personal days. This fraction is determined by the following: (1) For an employee with at least 10 years but less than 15 years of creditable service, the fraction is 20%; (2) for an employee with at least 15 years but less than 20 years of creditable service, the fraction is 35%; and (3) for an employee with at least 20 years of creditable service, the fraction is 50%. The maximum amount that an employee is currently entitled to is \$5,000. The cost of the Section 125 Cafeteria Plan Program is estimated to be approximately \$700,000 annually. This estimate is based on state employees who retired with 10 or more years of creditable service in CY 2000.

Separate from the Cafeteria Plan, state retirees are also provided cash payment for up to 30 vacation days. (The bill does not change this policy).

Under the bill the State Department of Personnel is required to provide for the type and amount of leave to be converted to monetary contributions, the conversion formula, and the vesting schedule for leave conversions. The bill also requires that the conversion rate be at least 75%. As a result, the cost estimate above assumes that retiring state employees must have at least 10 years of creditable service with the state to convert unused leave. It also assumes that retirees would be able to convert all unused sick and personal days, and all unused vacation days in excess of 30 days, to monetary contributions. The lower and upper bound of the cost estimate are based on conversion rates of 75% and 100%, respectively. Finally, the cost estimate was computed using the unused sick and personal days, and vacation days in excess of 30 days, accrued by state employees who retired in CY 2000 with 10 or more years of creditable service. On this basis, the additional cost to the state from the bill is estimated to range from \$1.4 M to \$2.1 M annually. Approximately 55% of this total (\$770,000 to \$1.15 M annually) would be paid from the state General Fund, and about 45% of the total (\$630,000 to \$950,000 annually) would come from dedicated funds.

It is important to note that the cost estimate is based on one year of retirees from state service. Consequently, the actual annual cost of the program could vary above or below the estimated cost range. This would depend on annual variation in the number of eligible employees retiring from state service and variation in the amount of unused leave time accrued by retiring state employees.

Explanation of State Revenues:

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: All.

Local Agencies Affected:

Information Sources: